



FINANCIAL PERFORMANCE AND DIVIDEND PAY-OUT OF ENERGY COMPANIES IN CHITTAGONG STOCK EXCHANGE OF BANGLADESH

Akhter Janan

Associate Professor, Faculty of Business Administration,
University of Science and Technology Chittagong, Bangladesh. Email: rezvee2004@gmail.com



Information of Article

Article history:

Received 15 Oct 2019

Revised 12 Nov 2019

Accepted 20 Nov 2019

Available online 25 Nov 2019

Keywords:

Financial literacy,
Financial performance,
Stock market,
Financial products.

ABSTRACT

The objective of this study was therefore to ratify whether dividend payout is significant in making investment decisions. The study further sought to establish the implication dividend payment has on financial performance of listed companies in the energy and petroleum sector in Chittagong Stock Exchange. Dividend Payout has been a pertinent issue for both organizations and investors. Most investors prefer to invest or retain their investments in companies which declare dividends regardless of their cashflows. Companies therefore strive to declare dividends to send positive shockwaves to investors to promote investor confidence. Secondary data from all the five listed companies in the energy and petroleum sector was used for the period 2009-2018. A descriptive design was deemed appropriate for the study. Dividend payout ratio was used as the independent variable of the study where Return on Assets was the dependent variables of this study. Multiple regression analysis was used to determine relationships between the predictor and the dependent variable.

1. Introduction

Investors always assess decisions made by firms and in most cases, they are keen on decisions that affect the worth of a company as this has a direct influence on financial performance of the company as well as profitability. Therefore, Dividend involves spreading a percentage of the company's income to the investor to boost their riches. This being one of the principle destinations that support speculation by the investors. The payment to speculators is done after government obligation has been paid. Profit pay-out diminishes the measure of held income of an organization. The principle source of internal financing for a firm is the held income since that is the portion of the profit that is set aside for venture. In this way, there is a contention between investors and managers who have been entrusted with the authority to safeguard the interests of the shareholders.

This is because managers would need to diminish the portion of profit paid to shareholders with the goal that they can expand the held income. Then again, investors would wish to have a more prominent offer of the benefit through dividends. In a book by Firer et al in Yee (2017) dividend payment strategy of any association are rules utilized by an organization in choosing the extent of the benefit that will go to the investors. The choice to pay dividend can't be repealed once the association pronounces, as this turns into a financial obligation/ debt to the company.

Numerous renowned companies have collapsed even instances when the companies have declared dividends to shareholders. Uchumi supermarket declared dividends to its shareholders but collapsed a month later in 2011. Recently Nakumatt supermarket also went under recently after respective years of declaring dividends to its shareholders. Companies declare dividends to send a positive signal of financial performance to shareholders. This study, therefore, is concerned in establishing the association between dividend payment and monetary performance of listed firms within the capital of Kenya securities and exchange market.

2. Literature Review

The notion of dividend payout has been a hot topic in Kenya for discussion these days as many businesses are going under even in instances where they have declared attractive dividends to shareholders. In the view of the firm, Payment of dividend by companies to shareholders is a very important policy to reward shareholders who have entrusted their finances in the company. (Ajanthan, 2013).

Evaluating the financial performance of a company is basically evaluating the impact of the strategies of a firm regarding financial matters. The results of such decisions are evident in the evaluation of the worth of a company or a business enterprise through assessment of the return on investment and return on assets (Dhar, 2019a,b; Dhar et al., 2017, 2018; Saeed et al., 2017; Rouhoma et al., 2018).

Market price of shares and therefore the rate of dividend declared to shareholders are of interest to researchers in finding out the trend on dividend payout and monetary performance of firms. Through studies many scholarly articles have tried to demonstrate relationship between dividend payout and stock prices and the firm value as well. Decisions on dividend payment are important in appreciating the concept of profit apportionment. It is an important concept of establishing the percentage of profit to be retained for investment purposes as we as investor appreciation through dividend payment (Primis & Whitehurst, n.d.). dividend payout decisions in some instances are less important as they do not give any gesture on the value of the firm. Early scholars advocated for dividend payout basing their arguments that when well managed it has a direct influence on share price as well as the value of the firm.

A recent study by Kanwal & Hameed (2017) discouraged cash dividend to investors as they argued that investors who receive cash dividends are not exempted from payment of tax. This increases the obligation on the investor to the government. Dividend payment has had having an inverse relationship with financial performance of a company. This means that as the firm increases dividend pay-out to investors then financial performance of the company decreases. This were the findings from a study that was conducted by Yusuf (2015) in his study on dividend policy and performance of selected listed firms in Nigeria between 2004-2013.

A similar study by (Rashid & Rahman, 2008) examined the relationship sandwiched between dividend pay-out policy and stock volatility applying cross sectional multivariate analysis. Variables of interest by the researcher included dividend payout ratio, debt, dividend earning volatility, firm size and growth in assets. Findings from the study exposed a positive association flanked by stock value volatility and dividend yield. An officious avowal of this study was that, the findings of the study was very different from those of a similar study conducted in a developed country. This means that there is little that can be done by the managers of companies to influence stock prices especially through dividend policy adjustment. Since Bangladesh does not have an efficient capital market then influencing stock price through dividend payment may be ambiguous.

Nishat & Irfan, 2008 had interesting findings in their study on dividend payment and risk emanating from share price of listed companies in Pakistan. Trend analysis was conducted for the study in the reform period (1991-2000) and during the pre-reform period (1981-1990). Findings revealed a significant influence of dividend payment policy on stock prices. Dividend payout had a significant influence only at lower levels. Overall, size of the form and leverage had a positive effect on price volatility of shares. On the other hand, inverse research findings were established during the pre-reform period of (1981-1990) which established that the size of the firm had a negative influence on share price volatility.

Yee (2017) on the other hand conducted a study to evaluate the relationship that existed between dividend pay-out policy and firm performance. The objective of the study was to gauge if dividends payment to shareholders could be used as a key gesture for denoting firm financial performance. The study was supporting the assumption that for a company to maximize shareholders wealth, it should award higher dividend and increase the price of shares. Where, the study was very domineering to establish underlying pillars to support dividend payment, the methodology used for the study and the sample study of the study was missing which makes it difficult to rely on the research findings to make a general summary on the findings from the study.

Turki & Al-khadhiri (2013) conducted a research on listed non-financial firms in Saudi Arabia stock exchange. The objective of the study was to establish factors determining dividend payment. Panel data for the years 2004-2010 was used applying a regression analysis model to establish trends and behavior of Earnings Per Share (EPS), Debt to Equity and Dividend Per Share as independent variables on the dependent variable. 105 companies were involved in the study. EPS and DPS were found to be the key factors which influence decisions regarding payment of dividends.

Francis, Samuel, & Wu (2017) explored the power of the stock-price construction progression on dividend payment. Secondary data was used in this study divided in two phases. Years 2001-2003 and 2005-2010. Year 2004 was not included in the sample since pilot firms were not publicized all through that year. It was evident from the findings of the study that pilot companies were more likely to upsurge dividend pay-out during this program. After the termination of the program, these companies were less likely to rise dividends payment but continue to pay dividends which increases the propensity to repurchase shares. the findings of this study were in tandem with the signaling and agency-based models. The results were more pronounced in firms with higher information asymmetry but with weaker governance. The general findings revealed that stock price volatility within the secondary financial market had a significant and enduring bearing on firms' payout policy.

Hamid et al., (2017) in their studied the dynamics of dividend payment policy and macroeconomic variables and their effect on fluctuation of stock price in Pakistan's financial sector for the period 2006-2014. Fixed and random effects analysis was conducted using panel data to identify relationships among the variable of study. Interest fluctuations, dividend payout ratio, market value, and inflation volatility were found to have significant positive correlations with share price volatility. Interesting findings on common impact model revealed positive correlation effects between dividend payout, interest volatility and the share price.

Whereas fixed effect model preferable and suitable good fit than random effect model, it was indicated that dividend payout ratio had a significant positive impact while market volatility had significant negative impact on stock prices. Additionally, GMM results supported the fixed and random effect outcome. It was therefore, concluded that the study considerably contributed to the dogma of dividend policy choices and appreciated the role of small and macro variables on stock value volatility within the financial sector of the country.

A closely related study in Nairobi Securities Exchange was conducted by Musiega, Alala, Douglas, Christopher, & Robert (2013). The researchers were interested in analyzing and determining determinants of financial performance in listed non-

financial companies involving 50 companies according to the NSE report (2012). The study used purposive sampling to select a sample of 30 companies that were involved in the study. The study period was 2007-2011 using secondary data from published financial reports. The dependent variable for this study was dividend payout while profitability of the firm, growth rate, current earnings, and liquidity ratio were used as dependent variable. The moderating variable for the study was business risk. Findings from this study showed that return on equity, current earnings and firms 'growth activities were positively correlated to dividend payout while. Introduction of business risk and firm size as moderating variables amplified the precision of significant variables from 95% to 99%, which meant that they were among the major determinants of dividend payout.

De Cesari & Ozkan, (2015) in their study examined the influence of managerial enticements on corporate payout policy. This was a comparative study that involved 1,650 listed companies in United Kingdom, Germany, France, Italy, the Netherlands and Spain, for the period 2002-2009. Lower dividend payment was observed for executive stock option holdings and stock option deltas. This was because of lack of dividend protection for executive stock options in the countries involved in the study. This was due to lack of dividend protection for govt stock choices within the countries concerned in the study. It absolutely was ascertained from the study that govt option holdings and stock option deltas had a negative impact on total payout, suggesting that executives weren't allowed to substitute share repurchases for dividends. In addition, the portion of share repurchases in total payout surges as govt option holdings and stock option deltas rise. Baker & Smith (2006) sampled 309 corporations exhibiting behavior per a residual dividend policy and their matched counterparts to be taught how they set their dividend policies. The findings unconcealed that the sampled corporations were a lot of doubtless than their counterparts to keep up a long-term dividend payout, use long earnings forecasts in setting the dividend, and be unconcerned regarding the price of raising external funds. Yet, corporations behaving like they follow a residual dividend policy usually don't profess to follow the policy. At best, the sample corporations follow a "modified" residual policy during which they fastidiously manage their payout quantitative relation and dividend trend. though it should not be a goal of such a dividend policy, systematically low free income usually results.

Adediran & Alade (2013) conducted a study to ascertaining the relationship between dividend policy and corporate profitability, Investment and Earning Per Shares. Annual report and accounts of twenty-five quoted companies in Nigeria were used. Regression analysis was conducted using e-views software and the findings indicated a significant positive relationship between dividend policies of organizations and profitability. Secondly, a significant positive relationship was reported between dividend policy and investments and thirdly, the study established a significant positive relationship between dividend policy and Earnings per Share. It is suggested that Organizations ought to make sure that they need an honest and strong dividend policy in situ as a result of it will enhance their gain and attract investments to the organizations. Based on the literature, the conceptual framework in given below:

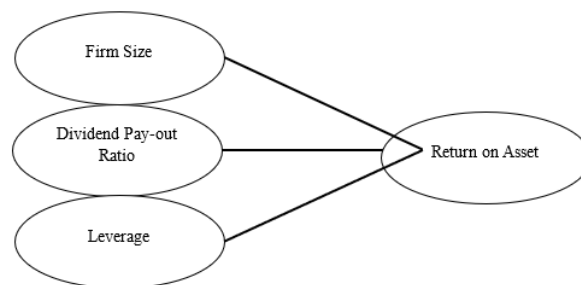


Figure 1: Conceptual Framework

Three variable Firm size, Dividend Pay-out and Leverage were used, and their effect tested on return on assets used as measures of financial performance.

3. Methodology

The study used Secondary data from financial statements of companies listed in the Chittagong Stock Exchange. 10 years trend analysis for all listed companies in the energy sector were used for the period 2009-2018. Correlational analysis and a multiple regression analysis were used to establish relationships among the variables. The study tested the following multiple regression model summary to determine relationships between the dependent and independent variables.

$$Y1 = \alpha + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \epsilon$$

Where;

Y1 = First Dependent Variable – ROA - Measure of financial performance of the company. Used to evaluate profitability of a company in relation to total assets (Net income/Total assets)

X1 = Dividend Payout ratio (Dividend per share/ Earnings per share)

X2 = Firm size (The Log of Total assets)

X3 = Leverage (Total debt/Total capital)

α = the constant term

β_1, β_2 & β_3 = coefficient used to measure the sensitivity of the dependent variable to unit change in the predictor variables.

ε = is the error term to capture unexplained variations in the model and which is assumed to be normally distributed with mean zero and constant variance

4.Data Analysis and Results

4.1 Correlations

Correlations were used to establish if there was any linear relationship between the predictor variables and the dependent. The findings from the study were as shown below:

Table 1: Correlations

		ROA
Leverage	Pearson Correlation	.185
	Sig. (2-tailed)	.375
Dividend Payout	Pearson Correlation	-.542**
	Sig. (2-tailed)	.000
Firm Size	Pearson Correlation	-.453**
	Sig. (2-tailed)	.000
	N	170

Using both return on equity and return on asset as the key measures of financial performance in listed companies, firm size had a very strong negative correlation ($r=-0.753$ p-Value 0.000) with return on Assets. Dividend payout on the other hand a strong negative correlation ($r=0.542$, P-value 0.000) with ROA. Lastly leverage had a very weak positive correlation ($r=0.175$, p-value 0.275). A similar trend was observed when ROA was replaced with ROE. The results revealed a negative association between Firm size and ROE ($r=-0.401$, p-value 0.009). The p-value for dividend payout and firm size was 0.000 ($p<0.05$) which means that the positive and negative association that occurred was significant. It was not due to chance. The p-value for leverage in both the two instances was above ($p>0.05$) threshold which means that the difference in association between leverage ROA was not significant. The study therefore concluded that firm size and dividend payout were key indicators of financial performance of the companies in the energy and petroleum. The relationship however is inverse. Investors should not therefore invest in companies that declare huge dividends but should consider those ones with higher percentages of retained earnings than dividend.

4.2 Multiple Regression Model using ROA

Under this model ROA was used as the dependent variable. The findings from the study were as shown below:

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.918 ^a	.770	.643	1.0715445

a. Predictors: (Constant), Firm Size, Leverage, Dividend Payout

From the model summary $R=0.818$. this showed that the three-predictor variable; firm size, leverage and dividend payout accounted for 81.8% of the total variance brought about on the dependent variable. The close association also between R and R Square shows that the model of the study was reliable and could be used to make an inference. This shows a great contribution from each of the independent variable.

Table 3. Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	23.136	4.662		5.672	.000		
	Leverage	3.622	1.302	.250	2.611	.013	.990	1.110
	Dividend Payout	-.422	.151	-.229	-2.128	.040	.769	1.201
	Firm Size	-2.358	.448	-.667	-6.159	.000	.762	1.113

a. Dependent Variable: ROA

The collinearity statistics were important to establish if our research model was affected by collinearity of variables. The findings from the study revealed tolerance values within the acceptable range of Tolerance should be greater than 0.2. Therefore, the variables were not affected by collinearity in any way. Leverage was found to have a positive relationship with ROA while dividend pay-out and firm size had inverse relationships with ROA. The findings were similar to those of (Yusuf, 2015) The model summary was stated as; $Y_1 = 23.136 + 3.622X_1 - 0.422X_2 - 2.358X_3 + \varepsilon$.

5. Conclusion

The leading objective of this article was to found relationship between dividend payment and financial performance in the energy companies under the Chittagong Stock Exchange of Bangladesh. The findings from the study revealed that Asset and dividend pay-out had an inverse relationship with financial performance while leverage had a positive relationship on financial performance. This showed that the firm's financial performance is affected by the dividend payment philosophy. Consequently, the results suggest that the dividend pay-out ratio highly influenced the firm financial performance negatively. The study therefore concluded an inverse relationship between dividend pay-out and financial performance. Investors seeking to invest in the energy sector companies listed under Chittagong Stock Exchange of Bangladesh. Those offering huge dividends should be avoided as they do not reflect the true financial position of the company.

References

- Adediran, S. A., & Alade, S. O. (2013). Dividend Policy and Corporate Performance in Nigeria. *American Journal of Social And Management Sciences*. <https://doi.org/10.5251/ajms.2013.4.2.71.77>
- Ajanthan, A. (2013). Corporate Governance and Dividend Policy: a Study of Listed Hotls and Restaurant Companies in Sri Lanka. *International Journal of Scientific & Research Publications*, 3(12), 98–114.
- Baker, H. K., & Smith, D. M. (2006). In search of a residual dividend policy. *Review of Financial Economics*. <https://doi.org/10.1016/j.rfe.2004.10.002>
- Baker, H. K., Veit, E. T., & Powell, G. E. (2001). Factors Influencing Dividend Policy Decisions of Nasdaq Firms. *The Financial Review*, 36(3), 19–38. <https://doi.org/10.1111/j.1540-6288.2001.tb00018.x>
- Dhar, B. K. (2019a). The Impact of Intellectual Capital on Organizational Performance in the Banking Sector of Bangladesh (Doctoral dissertation, Universiti Sains Islam Malaysia).
- Dhar, B. K. (2019b). Determining Effective Dimensions of Intellectual Capital. *Australian Academy of Accounting and Finance Review*, 4(4), 166–185.
- Dhar, B. K., Masruki, R., Mutalib, M., Rahouma, H. M., Sobhani, F. A., & Absar, M. M. N. (2018). Mediating Effect of Organizational Commitment Between Islamic Human Resource Practices and Organizational Performance Among Islamic Banks of Bangladesh. *The Journal of Muamalat and Islamic Finance Research*, 54–65.
- Dhar, B. K., Mutalib, M., & Sobhani, F. A. (2017). Investigating the Impact of Human Resource Accounting Practice on Organizational Performance. In *International Islamic Social Economic Conference*, Universiti Sains Islam Malaysia, Malaysia.
- De Cesari, A., & Ozkan, N. (2015). Executive incentives and payout policy: Empirical evidence from Europe. *Journal of Banking and Finance*. <https://doi.org/10.1016/j.jbankfin.2014.12.011>
- Francis, B. B., Samuel, G., & Wu, Q. (2017). The Impact of Financial Markets on Payout Policy: Evidence from Short Selling. *Ssrn*. <https://doi.org/10.2139/ssrn.3038300>
- Gugler, K., & Yurtoglu, B. B. (2003). Corporate governance and dividend pay-out policy in Germany. *European Economic Review*, 47(4), 731–758. [https://doi.org/10.1016/S0014-2921\(02\)00291-X](https://doi.org/10.1016/S0014-2921(02)00291-X)
- Hamid, K., Khurram, M. U., & Ghaffar, W. (2017). Juxtaposition of Micro and Macro Dynamics of Dividend Policy on Stock Price Volatility in Financial Sector of Pakistan: (Comparative Analysis through Common, Fixed, Random and GMM Effect). *Journal of Accounting Finance and Auditing Studies*, 3(1).
- Kanwal, M., & Hameed, S. (2017). The Relationship between Dividend Payout And Firm Financial Performance. *Research in Business and Management*, 4(1), 5. <https://doi.org/10.5296/rbm.v4i1.10784>
- Musiega, M. G., Alala, O. B., Douglas, M., Christopher, M. O., & Robert, E. (2013). Determinants Of Dividend Payout Policy Among Non-Financial Firms On Nairobi Securities Exchange, Kenya. *International Journal of Scientific & Technology Research*.
- Nishat, M., & Irfan, C. M. (2008). Dividend Policy and Stock Price Volatility in Pakistan. *The Pakistan Development Review*, 4(1), 175–188. <https://doi.org/10.1080/096031096334402>
- Onali, E. (2014). Moral Hazard, Dividends, and Risk in Banks. *Journal of Business Finance and Accounting*. <https://doi.org/10.1111/jbfa.12057>
- Press, T. M. I. T., & Review, T. (2010). Dividends , Earnings , and Stock Prices, 41(2), 99–105.
- Primis, H., & Whitehurst, D. (n.d.). *Finance Fundamentals of Corporate Finance*. Retrieved from http://www.untagsmd.ac.id/files/Perpustakaan_Digital_1/CORPORATE_FINANCE_Fundamentals_of_Corporate_Finance_6th_Ed_-_Vol_1.%5B2002.ISBN0072553073%5D.pdf
- Rashid, A., & Rahman, A. Z. M. A. (2008). Dividend Policy and Stock Price Volatility: Evidence from Bangladesh. *The Journal of Applied Business and Economics*, 8(4), 71–81. Retrieved from <http://search.proquest.com/docview/218717004?accountid=27540>
- Rouhoma, H. M., Dhar, B. K., Ali, K., & Osman, M. M. (2018). Constructing model to explore the influence of Religiosity and Spirituality on Organizational Performance through Organizational Commitment. *AL-'ABQARI: Journal of Islamic Social Sciences and Humanities*, 16, 11–30.
- Saeed, M. A. Y., Bekhet, H. A., & Dhar, B. K. (2017). Constructing model to explore the influence of marketing audit on organizational performance—An innovative arena of marketing. *International Journal of Business Society*, 1(1), 37–47.
- Turki, S. y : the evidence from Saudi Arabia. *International Journal of Business and*
- Whitehur
- Yee, T. C. (2017). Dividend Pay-out Policy and Firm Performance. *Journal of Arts & Social Sciences*, 1(1), 42–52.
- Yusuf, B. R. (2015). Dividend payout ratio and performance of deposit money banks in Nigeria. *International Journal of Advances in Management and Economic*, 4(6), 98–105.